

# **QUARTERLY REPORT**

**LICENSEE: GREATE BAY HOTEL AND CASINO, INC.**

**FOR THE QUARTER ENDED MARCH 31, 2001**

**TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY**



**DIVISION OF FINANCIAL EVALUATION  
REPORTING MANUAL**

**TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO**  
**BALANCE SHEETS**

AS OF MARCH 31, 2001 AND 2000

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents.....	\$ 17,259	\$ 25,505
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2001, \$11,112; 2000, \$10,949).....	9,562	8,095
4	Inventories.....	2,722	3,000
5	Prepaid Expenses and Other Current Assets.....	4,987	5,159
6	Total Current Assets.....	34,530	41,759
7	Investments, Advances, and Receivables.....	8,185	8,660
8	Property and Equipment - Gross..... Note 7.....	164,853	350,215
9	Less: Accumulated Depreciation and Amortization..... Note 7.....	(5,286)	(192,456)
10	Property and Equipment - Net..... Note 7.....	159,567	157,759
11	Other Assets.....	2,371	2,406
12	Total Assets.....	\$ 204,653	\$ 210,584
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	\$ 7,305	\$ 5,292
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates..... Note 2.....	-	-
16	Other..... Note 2.....	451	81
17	Income Taxes Payable and Accrued.....	-	417
18	Other Accrued Expenses.....	13,715	14,654
19	Other Current Liabilities..... Note 5.....	4,149	4,428
20	Total Current Liabilities.....	25,620	24,872
	Long-Term Debt:		
21	Due to Affiliates.....	110,000	-
22	Other..... Note 2.....	366	818
23	Deferred Credits.....	-	3,479
24	Other Liabilities & Liabilities Subject to Compromise..... Note 3, 5.....	4,158	219,873
25	Commitments and Contingencies		
26	Total Liabilities.....	140,144	249,042
27	Stockholders', Partners', Or Proprietor's Equity.....	64,509	(38,458)
28	Total Liabilities and Equity.....	\$ 204,653	\$ 210,584

The accompanying notes are an integral part of the financial statements.

**TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO**  
**STATEMENTS OF INCOME**

FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	Revenue:		
1	Casino.....	\$ 53,666	\$ 54,845
2	Rooms.....	2,555	2,169
3	Food and Beverage.....	6,741	6,527
4	Other.....	905	1,080
5	Total Revenue.....	63,867	64,621
6	Less: Promotional Allowances.....	6,122	5,832
7	Net Revenue.....	57,745	58,789
	Costs and Expenses:		
8	Cost of Goods and Services.....	36,459	33,554
9	Selling, General, and Administrative.....	19,719	18,597
10	Provision for Doubtful Accounts.....	608	633
11	Total Costs and Expenses.....	56,786	52,784
12	Gross Operating Profit.....	959	6,005
13	Depreciation and Amortization.....	2,640	2,751
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	(1,681)	3,254
	Other Income (Expenses):		
17	Interest (Expense) .....	(3,025)	-
18	Interest (Expense) - External.....	(104)	(73)
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(324)	(338)
20	Nonoperating Income (Expense) - Net.....	194	177
21	Total Other Income (Expenses).....	(3,259)	(234)
22	Income (Loss) Before Income Taxes And Extraordinary Items.....	(4,940)	3,020
23	Provision (Credit) for Income Taxes.....	(1,591)	639
24	Income (Loss) Before Extraordinary Items.....	(3,349)	2,381
	Extraordinary Items (Net of Income Taxes -		
25	2001, \$ _____; 2000, \$ _____) Reorganization Costs.....	-	(1,245)
26	Net Income (Loss).....	(3,349)	1,136

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2000 AND THE THREE MONTHS ENDED MARCH 31, 2001

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 1999.....	100	\$ 3,500		\$	24,508	\$	(67,602)	\$ (39,594)
2	Net Income (Loss) - Pre-reorganization....							25,531	25,531
3	Contribution to Paid-in-Capital.....								
4	Dividends.....								
5	Prior Period Adjustments.....								
6	Reorganization and Fresh								
7	Start Adjustments	(100)	(3,500)			40,851		42,071	79,422
8	Issuance of New Common Stock	100	-						-
	Contribution to Paid-in Capital					500			500
9	Net income (loss) - Post-reorganization							(7,500)	(7,500)
10	Balance, December 31, 2000.....	100	-			65,859		(7,500)	58,359
11	Net Income (Loss) - 2001.....							(3,349)	(3,349)
12	Contribution to Paid-in - Capital.....					9,500			9,500
13	Dividends.....								
14	Prior Period Adjustments.....								
15	_____								
16	_____								
17	_____								
18	_____								
19	Balance, March 31, 2001.....	100	\$ -		\$	75,359	\$	(10,849)	\$ 64,510

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

**STATEMENTS OF CHANGES IN PARTNERS'  
OR PROPRIETOR'S EQUITY**

**FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2000  
AND THE THREE MONTHS ENDED MARCH 31, 2001**

(UNAUDITED)  
(\$ IN THOUSANDS)

NOT APPLICABLE

LINE (a)	DESCRIPTION	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	NOT APPLICABLE	
				(e)	Total Equity (Deficit) (f)
1	Balance, December 31, _____ ..	\$	\$	\$	\$
2	Net Income (Loss) - _____ ..				
3	Capital Contributions..... ..				
4	Capital Withdrawals..... ..				
5	Partnership Distributions..... ..				
6	Prior Period Adjustments..... ..				
7	_____ ..				
8	_____ ..				
9	_____ ..				
10	Balance, December 31, _____ ..				
11	Net Income (Loss) - _____ ..				
12	Capital Contributions..... ..				
13	Capital Withdrawals..... ..				
14	Partnership Distributions..... ..				
15	Prior Period Adjustments..... ..				
16	_____ ..				
17	_____ ..				
18	_____ ..				
19	Balance, _____, _____ ..	\$	\$	\$	\$

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

**TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000**

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ (5,511)	\$ 8,373
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....	-	-
3	Proceeds from the Sale of Short-Term Investment Securities.....	-	-
4	Cash Outflows for Property and Equipment.....	(3,821)	(3,102)
5	Proceeds from Disposition of Property and Equipment.....	5	12
6	Purchase of Casino Reinvestment Obligations.....	(651)	(652)
7	Purchase of Other Investments and Loans/Advances made.....	-	-
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....	-	-
9	Cash Outflows to Acquire Business Entities (net of cash acquired)....	-	-
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(4,467)	(3,742)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....	-	-
14	Payments to Settle Short-Term Debt.....	-	-
15	Cash Proceeds from Issuance of Long-Term Debt.....	-	-
16	Costs of Issuing Debt.....	-	-
17	Payments to Settle Long-Term Debt.....	(21)	(22)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....	9,500	-
19	Purchases of Treasury Stock.....	-	-
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	9,479	(22)
24	Net Increase (Decrease) In Cash And Cash Equivalents.....	(499)	4,609
25	Cash And Cash Equivalents At Beginning Of Period.....	17,758	20,896
26	Cash And Cash Equivalents At End Of Period.....	\$ 17,259	\$ 25,505

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 6,067	\$ 19
28	Income Taxes.....	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

**TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO**  
**STATEMENTS OF CASH FLOWS**

FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
29	Net Income (Loss).....	\$ (3,349)	\$ 1,136
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	2,580	2,701
31	Amortization of Other Assets.....	60	50
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	-	-
35	(Gain) Loss on Disposition of Property and Equipment.....	(5)	10
36	(Gain) Loss on Casino Reinvestment Obligations.....	324	338
37	(Gain) Loss from Other Investment Activities.....	-	-
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	1,410	1,785
39	Net (Increase) Decrease in Inventories.....	129	439
40	Net (Increase) Decrease in Other Current Assets.....	(1,121)	585
41	Net (Increase) Decrease in Other Assets.....	(20)	14
42	Net Increase (Decrease) in Accounts Payable.....	(2,517)	443
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(3,055)	821
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	53	51
45	Write Off Reorganization Related Costs		
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ (5,511)	\$ 8,373

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>		
48	Additions to Property and Equipment.....	\$ 3,821	\$ 3,102
49	Less: Capital Lease Obligations Incurred.....	0	0
50	Cash Outflows For Property And Equipment.....	\$ 3,821	\$ 3,102
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
53	Net Assets Acquired Other Than Cash, Goodwill, and Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows To Acquire Business Entities.....	\$ -	\$ -
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>		
57	Total Issuances of Stock or Capital Contributions.....	\$ 9,500	\$ -
58	Less: Issuances to Settle Long-Term Debt.....	-	-
59	Consideration in Acquisition of Business Entities.....	-	-
60	Cash Proceeds From Issuing Stock Or Capital Contributions.....	\$ 9,500	\$ -

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL AND CASINO

**SCHEDULE OF PROMOTIONAL  
EXPENSES AND ALLOWANCES**

(\$ IN THOUSANDS)

FOR THE THREE MONTHS ENDED MARCH 31, 2001

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	58,826	\$ 1,613		\$
2	Food	181,972	2,853		
3	Beverage	860,356	1,462		
4	Travel			1,410	718
5	Bus Program Cash			186,917	3,245
6	Other Cash Complimentaries			75,990	5,501
7	Entertainment	1,116	17		
8	Retail & Non-Cash Gifts			176,786	1,088
9	Parking			65,269	98
10	Other	22,121	177	171	496
11	Total	1,124,391	\$ 6,122	506,543	\$ 11,146

FOR THE THREE MONTHS ENDED MARCH 31, 2001

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	58,826	\$ 1,613		\$
2	Food	181,972	2,853		
3	Beverage	860,356	1,462		
4	Travel			1,410	718
5	Bus Program Cash			186,917	3,245
6	Other Cash Complimentaries			75,990	5,501
7	Entertainment	1,116	17		
8	Retail & Non-Cash Gifts			176,786	1,088
9	Parking			65,269	98
10	Other	22,121	177	171	496
11	Total	1,124,391	\$ 6,122	506,543	\$ 11,146



# **GREATE BAY HOTEL AND CASINO, INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

### **(1) Organization, Business and Basis of Presentation**

Greate Bay Hotel and Casino, Inc. ("GBHC") is a New Jersey corporation and wholly owned subsidiary of GB Holdings, Inc. ("Holdings"), a Delaware corporation. Holdings was a wholly owned subsidiary of Pratt Casino Corporation ("PCC") through December 31, 1998. PCC, a Delaware corporation, was incorporated in September 1993 and was wholly owned by PPI Corporation ("PPI"), a New Jersey corporation and a wholly owned subsidiary of Greate Bay Casino Corporation ("GBCC"). Effective after December 31, 1998, PCC transferred 21% of the stock ownership in Holdings to PBV, Inc. ("PBV"), a newly formed entity controlled by certain stockholders of GBCC. As a result of a certain confirmed plan of reorganization of PCC and others in October 1999, the remaining 79% stock interest of PCC in Holdings was transferred to Greate Bay Holdings, LLC ("GBLLC"), whose sole member as a result of the same reorganization was PPI. In February 1994, Holdings acquired GBHC through a capital contribution by its then parent. GBHC's principal business activity is its ownership of the Sands Hotel and Casino located in Atlantic City, New Jersey (the "Sands"). GB Property Funding Corp. ("GB Property Funding"), a Delaware corporation and a wholly owned subsidiary of Holdings, was incorporated in September 1993 as a special purpose subsidiary of Holdings for the purpose of borrowing funds for the benefit of GBHC. Effective September 2, 1998, GBHC acquired the membership interests in Lieber Check Cashing LLC ("Lieber"), a New Jersey limited liability company that owned a land parcel adjacent to GBHC.

On January 5, 1998, GBHC, Holdings and GB Property Funding (collectively, the "Debtors") filed petitions for relief under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). On August 14, 2000, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Modified Fifth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code Proposed by the Official Committee of Unsecured Creditors and High River Limited Partnership and its Affiliates (the "Plan") for the Debtors. High River Limited Partnership ("High River") is an entity controlled by Carl C. Icahn. On September 13, 2000, the New Jersey Casino Control Commission (the "Commission") approved the Plan. On September 29, 2000, the Plan became effective (the "Effective Date"). All material conditions precedent to the Plan becoming effective were satisfied on or before September 29, 2000. Accordingly, the accompanying consolidated financial statements have been prepared in accordance with Statement of Position No. 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"), and include disclosure of liabilities subject to compromise (see Note 3). In addition, as a result of the Confirmation Order and the occurrence of the Effective Date, and in accordance with SOP 90-7, GBHC has adopted "fresh start reporting" in the preparation of the accompanying consolidated financial statements. The emergence of GBHC from Chapter 11 resulted in a new reporting entity with no retained earnings or accumulated deficit as of September 30, 2000. As a result, the consolidated financial statements for the periods subsequent to September 30, 2000 reflect the new basis of accounting. The accompanying consolidated financial statements include the accounts and operations of GBHC and Lieber. All significant intercompany balances and transactions have been eliminated.

A significant amount of the Sands' revenues are derived from patrons living in northern New Jersey, southeastern Pennsylvania and metropolitan New York City. Competition in the

**GREATER BAY HOTEL AND CASINO, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Atlantic City gaming market is intense and management believes that this competition will continue or intensify in the future.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On the Effective Date, GB Property Funding's existing debt securities, consisting of its 10 7/8% First Mortgage Notes due January 15, 2004 (the "Old Notes") and all of Holdings' issued and outstanding shares of common stock owned by PBV and GBLLC (the "Old Common Stock") were cancelled. As of the Effective Date, an aggregate of 10,000,000 shares of new common stock of Holdings (the "New Common Stock") were issued and outstanding, and \$110,000,000 of 11% First Mortgage Notes due 2005 were issued by GB Property Funding (the "New Notes"). Holders of the Old Notes received a distribution of their pro rata shares of (i) the New Notes and (ii) 5,375,000 shares of the New Common Stock (the "Stock Distribution"). In addition, \$65,000,000 in cash was obtained from affiliates of the majority shareholder.

Pursuant to SOP 90-7, "fresh start reporting" has been reflected as of September 30, 2000 in the accompanying consolidated financial statements because: (i) the sum of the allowed claims, plus postpetition liabilities, exceeded the reorganization value of the preconfirmation assets of the emerging entity and (ii) Holdings experienced a change of control (as defined in SOP 90-7). SOP 90-7 requires under these circumstances the creation of a new reporting entity and the recordation of assets and liabilities at their fair values. In support of the restructuring process, the Debtors retained an independent third party to determine, among other things, the value of the equity of Holdings. This independent third party set the value of the equity between a range of \$11 and \$14 per share. The Bankruptcy Court, considering the testimony of that third party and others offered at the confirmation hearing on the Plan, accepted this range and used the mid-point of \$12.50 per share for the purpose of determining the value of the unsecured portion of the claim of the holders of the Old Notes. For these reasons, Holdings has set the value of the post confirmation assets of the reorganized entity based upon that value of the equity and the New Notes and by the post petition liabilities assumed. The resulting difference between the equity, New Notes and post petition liability assumed and the liabilities subject to compromise and equity eliminated has been allocated to long term assets based upon a pro rata determination of their fair values, as required by SOP 90-7.

Certain reclassifications have been made to prior year's consolidated financial statements to conform to the 2001 consolidated financial statement presentations.

**GREATER BAY HOTEL AND CASINO, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**(2) Long-Term Debt**

Long-term debt is comprised of the following:

	<u>March 31, 2001</u>	<u>March 31, 2000</u>
10 7/8% first mortgage notes due 2004 (a)	\$ -	\$ 181,977,000
14 5/8% affiliate loan, due 2005 (b)	-	10,000,000
11% first mortgage notes, due 2005 (c)	110,000,000	-
Lieber mortgage (d)	433,000	498,000
Other	<u>384,000</u>	<u>401,000</u>
 Total indebtedness	 110,817,000	 192,876,000
Less - current maturities	(451,000)	(81,000)
Less - debt subject to compromise (Note 3)	<u>-</u>	<u>(191,977,000)</u>
 Total long-term debt	 <u>\$ 110,366,000</u>	 <u>\$ 818,000</u>

- (a) On February 17, 1994, GBHC obtained the net proceeds from the sale by GB Property Funding of \$185,000,000 of Old Notes. Interest on the Old Notes accrued at the rate of 10 7/8% per annum, payable semiannually. Interest only was payable during the first three years. Thereafter, semiannual principal payments of \$2,500,000 were due on each interest payment date with the balance due at maturity. GBHC acquired \$2,500,000 face amount of Old Notes at a discount during May 1997, which it used during June 1997 to make its July 15, 1997 required principal payment. As a result of the filing under Chapter 11, the debt service payments due subsequent to January 5, 1998 were not made. The accrual of interest on the Old Notes for periods subsequent to the filing was suspended. As a result of the Confirmation Order and the occurrence of the Effective Date, the Old Notes have been satisfied and discharged.

Under an order of the Bankruptcy Court, permitting the disposition of furniture and equipment in the ordinary course of business, any payments received by GBHC for the sale of such assets prior to the Effective Date, which were part of the security for the Old Notes, had to be remitted to the Indenture Trustee as reductions to the outstanding principal of the Old Notes. Proceeds from the sale of such assets amounting to \$3,000 for the three months ended March 31, 2000 were remitted to the Indenture Trustee. There were no sales of such assets during the same period in 2001. Although the payments were remitted to the Indenture Trustee as reduction in principal in accordance with the Order of the Bankruptcy Court, the Indenture Trustee advised GBHC (i) that such payments were retained by the Indenture Trustee pursuant to the terms of the indenture for the Old Notes as security for the payment of the fees and expenses incurred by the Indenture Trustee in the Chapter 11 proceeding and (ii) that the Indenture Trustee included the amount of such payments in its fee application before the Bankruptcy Court for the benefit of the holders of the Old Notes. Subject to a certain reduction as respects GBHC, the Bankruptcy Court granted the fee application of the Indenture Trustee.

**GREATER BAY HOTEL AND CASINO, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Unaudited)

- (b) On February 17, 1994, PRT Funding Corp. ("PRT"), then an affiliate, loaned GBHC \$10,000,000 under a promissory note (the "PRT Subordinated Note"), which was subordinated to the Old Notes. The PRT Subordinated Note was due on February 17, 2005 and bore interest at the rate of 14 5/8% per annum, payable semiannually. Interest was paid only through February 17, 1996. The accrual of interest on the PRT Subordinated Note for periods subsequent to the filing under Chapter 11 was suspended. As a result of the confirmation of a certain plan of reorganization of PRT Funding Corp. in October 1999, the PRT Subordinated Note was transferred to GBLLC, whose sole member was PPI. As a result of the Confirmation Order and the occurrence of the Effective Date, the PRT Subordinated Note was satisfied and discharged.
- (c) As result of the Confirmation Order and the occurrence of the Effective Date and under the terms of the Plan, the Old Notes were cancelled and replaced with \$110,000,000 of 11% first mortgage notes due 2005. Interest on the New Notes is payable on March 29 and September 29, beginning March 29, 2001. The outstanding principle is due on September 29, 2005. The New Notes are unconditionally guaranteed, on a joint and several basis, by both Holdings and GBHC, and are secured by substantially all of the assets, as of the Effective Date, other than cash and gaming receivables of Holdings and GBHC.
- The indenture for the New Notes contains various provisions, which, among other things, restrict the ability of GBHC to incur certain senior secured indebtedness beyond certain limitations, and contain certain other limitations on the ability to merge, consolidate, or sell substantially all of their assets, to make certain restricted payments, to incur certain additional senior liens, and to enter into certain sale-leaseback transactions.
- (d) On September 2, 1998, GBHC acquired the membership interests in Lieber, which owned a certain parcel of land on Pacific Avenue in Atlantic City until transferring it to GBHC in September 2000. Principal mortgage indebtedness at the time of acquisition was \$591,000 and bears interest at the rate of 7% per annum. Principal and interest are paid monthly based on a ten-year amortization schedule. The balance of the note is due in July 2001.

Scheduled payments of long-term debt as of March 31, 2001 are set forth below:

2001 (nine months)	\$ 446,000
2002	19,000
2003	21,000
2004	23,000
2005	110,026,000
Thereafter	<u>282,000</u>
Total	<u>\$ 110,817,000</u>

**GREATE BAY HOTEL AND CASINO, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Interest paid amounted to \$6,068,000 and \$19,000, respectively, for the three months ended March 31, 2001 and 2000. At March 31, 2001 accrued interest on the New Notes of \$67,000 is included in Other Accrued Expenses. At March 31, 2000, accrued interest on the Old Notes in the amount of \$9,373,000 is included with Other Liabilities and Liabilities Subject to Compromise on the accompanying consolidated balance sheets.

**(3) Liabilities Subject to Compromise**

As a result of the Confirmation Order and the occurrence of the Effective Date and under the terms of the Plan, liabilities subject to compromise were discharged as of the Effective Date (see Note 1).

Liabilities subject to compromise consisted of the following at March 31, 2000 and are included in Other Liabilities and Liabilities Subject to Compromise on the accompanying consolidated balance sheets:

Accounts payable and accrued liabilities	\$ 6,589,000
Old Notes	181,977,000
PRT Subordinated Note	10,000,000
Borrowings from affiliate	5,000,000
Accrued interest	12,855,000
Due to affiliates	<u>161,000</u>
Total	<u><u>\$ 216,582,000</u></u>

# GREATE BAY HOTEL AND CASINO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

### (4) Income Taxes

The components of the provision (benefit) for income taxes are as follows:

	Three Months Ended March 31,	
	2001	2000
Federal income tax provision (benefit):	\$	\$
Current	(1,591,000)	417,000
Deferred	-	222,000
State income tax provision (benefit):		
Current	-	-
Deferred	-	-
	\$ (1,591,000)	\$ 639,000

Prior to 1997, GBHC was included in the consolidated federal income tax return of Hollywood Casino Corporation ("HCC"). GBHC's operations were included in GBCC's consolidated federal income tax returns for the years ended December 31, 1998 and 1997 but GBCC agreed to allow GBHC to become deconsolidated from the GBCC group effective after December 31, 1998. In accordance therewith, PCC transferred 21% of the stock ownership in Holdings to PBV, effecting the deconsolidation of GBHC from the GBCC group for federal income tax purposes (the "Deconsolidation"). Accordingly, beginning in 1999, GBHC's provision for federal income taxes is calculated and paid on a consolidated basis with GB Property Funding and Holdings.

The Internal Revenue Service is examining the consolidated federal income tax returns of HCC for the years 1995 and 1996 and the consolidated federal income tax returns for GBCC for the years 1997 and 1998 in which GBHC was included (the "Audit"). As a result of such Audit, GBCC management has disclosed in its annual SEC Form 10-K, filed for the year ended December 31, 2000, that it is presently unable to estimate the impact of the Audit on the consolidated financial position or results of operations of GBCC. GBHC is dependent upon receipt of information from HCC and GBCC as to the operations of their affiliates and the impact of those operations on the former HCC and GBCC consolidated groups' Federal net operating losses ("Federal NOL's"). Any such use of these NOL's, by either HCC or GBCC, are subject to the terms of a certain settlement agreement.

Federal and State income tax benefits or provisions are based upon the results of operations for the current period and the estimated adjustments, for income tax purposes, of certain nondeductible expenses. The Federal income tax benefit of approximately \$1.6 million for the three months ended March 31, 2001 is a result of applying the statutory Federal income tax rate of 35% to the pretax loss after adjustments for income tax purposes. Management believes that over the remainder of 2001, pretax income after similar adjustments for income tax purposes will exceed the first quarter 2001 pretax loss. As such, the Federal income tax benefit of

## **GREATE BAY HOTEL AND CASINO, INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)** **(Unaudited)**

approximately \$1.6 million is offset to current deferred tax assets without any associated provision for a valuation allowance.

At March 31, 2001, GBHC has deferred tax assets including State net operating losses and Federal credit carryforwards. The State net operating losses ("State NOL's") begin to expire in the year 2003 for state tax purposes. A portion of the Federal credit carryforwards, if not utilized, will expire each year through 2019. In addition, as part of a certain settlement agreement, GBCC may utilize Federal NOL's of GBHC through December 31, 1998 to offset Federal taxable income of GBCC and other members of its consolidated tax group. Subsequent to the Deconsolidation, GBHC had approximately \$6.0 million in Federal NOL's, which were revised from \$2.8 million due to recent developments in the on-going Audit. GBHC expects to utilize approximately \$5.1 million in Federal NOL's in its amended 1999 consolidated Federal tax return resulting in approximately \$900,000 in Federal NOL's available for the year 2000. Statement of Financial Accounting Standards No. 109 ("SFAS 109") requires that the tax benefit of NOL's and deferred tax assets resulting from temporary differences be recorded as an asset and, to the extent that management can not assess that the utilization of all or a portion of such NOL's and deferred tax assets is more likely than not, requires the recording of a valuation allowance. Due to various uncertainties impacting estimates of the tax basis in future years, management is unable to determine that realization of GBHC's deferred tax asset is more likely than not and, thus, has provided a valuation allowance for all but the portion resulting from the current quarter loss at March 31, 2001.

As a result of the Confirmation Order and the occurrence of the Effective Date and under the terms of the Plan, GBHC's outstanding debt was discharged. Pursuant to the Internal Revenue Code, debt that is cancelled or discharged under the Bankruptcy Code does not generate taxable income in the current period to the debtor. Instead, certain tax attributes otherwise available to the debtor are reduced. This attribute reduction is effective for tax purposes beginning January 1, 2001 and reduces the tax basis of noncurrent assets by approximately \$14.9 million. GBHC had a change of ownership as defined under Internal Revenue Code Section 382 upon the Effective Date. Management currently estimates there will be no significant limitations on the ability of the company to use its tax attributes, if any, on a post confirmation basis as a result of this change of ownership.

#### **(5) Transactions with Related Parties**

GBHC's rights to the trade name "Sands" (the "Trade Name") were derived from a license agreement between GBCC and an unaffiliated third party. Amounts payable by the Sands for these rights were equal to the amounts paid to the unaffiliated third party. As a result of the Confirmation Order and the occurrence of the Effective Date and under the terms of the Plan, GBHC was assigned by High River the rights under a certain agreement with the owner of the Trade Name to use the Trade Name as of the Effective Date. High River received no payments for its assignment of these rights. Payment is made directly to the owner of the Trade Name. The calculation of the license fee is the same as under the previous agreement. Such charges amounted to \$60,000 and \$65,000, respectively, for the three months ended March 31, 2001 and 2000. There were no affiliate advances and borrowings for the three months ended March 31, 2001 and 2000, respectively.

# GREATE BAY HOTEL AND CASINO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

GBHC was charged \$139,000 during the three months ended March 31, 2000 for certain equipment and other expenses incurred by GBCC and HCC and their respective subsidiaries that relate to GBHC's business.

There was no interest expense incurred with respect to affiliate advances and borrowings for the three months ended March 31, 2001 and 2000, respectively.

### (6) Legal Proceedings

GBHC has filed tax appeals with the New Jersey Tax Court challenging the amount of its real property assessment for calendar years 1996, 1997, 1998, 1999, 2000 and 2001. The City of Atlantic City has also appealed the amount of the assessments for the same years.

GBHC is a party in various legal proceedings with respect to the conduct of casino and hotel operations. Although a possible range of losses cannot be estimated, in the opinion of management, based upon the advice of counsel, settlement or resolution of these proceedings should not have a material adverse impact upon the consolidated financial position or results of operations of GBHC. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties described above.

### (7) Property and Equipment

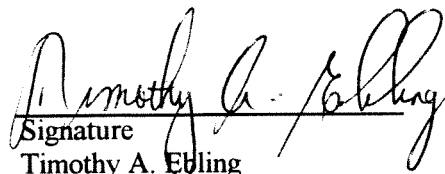
Property and equipment consisted of the following:

	March 31,	
	2001	2000
Land	\$ 54,814,000	\$ 51,233,000
Buildings and improvements	81,975,000	185,508,000
Operating equipment	20,777,000	109,965,000
Construction in progress	7,287,000	3,509,000
	164,853,000	350,215,000
Less: accumulated depreciation and amortization	(5,286,000)	(192,456,000)
Net property and equipment	\$ 159,567,000	\$ 157,759,000



STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



Signature

Timothy A. Ebling  
Executive Vice President,  
Chief Financial Officer

Title

003052-11

License Number

On Behalf Of:

Greate Bay Hotel And Casino, Inc.  
Casino Licensee